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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2022/2023 (TERM ID 2210)

DFA5044 – FINANCIAL ACCOUNTING 4

(All Sections / Groups)

18 FEBRUARY 2023
09.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 8 pages with 4 questions.
2. Write your answers in the answer booklet provided.
3. Answer ALL questions.

QUESTION 1**Part A**

Sunweb Berhad was incorporated in April 2018 and its main activity is supplying IT software and hardware to their clients. After Covid-19 pandemic, the demand from their clients increased tremendously. Sunweb Berhad needs more capital to finance their day-to-day operations. The company decided to invite public to subscribe their preference and ordinary shares.

Given below are the company's transactions related to the issuance of new shares for the year 2022:

1. 300,000 8% preference shares issued at a price of RM2 each and it was fully subscribed and paid during application.
2. 700,000 ordinary shares at a price of RM1.60 were issued on the following terms:
 - a) RM0.20 on application
 - b) RM0.50 on allotment
 - c) RM0.30 on 1st call
 - d) RM0.40 on 2nd call
 - e) RM0.20 on 3rd and final call
3. Total applications received for the ordinary shares were 1,000,000 and the director rejected 40% of the oversubscribe applications and shares were allotted on pro-rata basis among the remaining applicants. Any surplus money on application was used to pay up on allotment.
4. During 1st call, there were two shareholders who held 15,000 and 35,000 shares, paid the 2nd call money during 1st call. Besides, one shareholder with 25,000 shares failed to pay 1st call money when requested by the company.
5. During the 2nd and 3rd call, all the monies due were received including shareholder with 25,000 shares paid the amount due for the 1st call during the 3rd and final call.

Required

- (a) Prepare the journal entries to record the above transactions. (16 marks)
- (b) Prepare the extract of the Statement of Financial Position after the 2nd call. (3 marks)

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Part B

The Statement of Financial Position of Cherry Berhad as at 31 December 2021 is as follows:

Cherry Berhad Statement of Financial Position as at 31 December 2021	
	(RM)
Assets:	
Non-current assets	552,000
Bank	<u>200,000</u>
Total Assets	<u>RM752,000</u>
Non-current liability:	
160,000 5% Redeemable Preference Shares of RM2 each	352,000
Current liability:	
Trade payables	20,000
Issued and paid-up share capital:	
200,000 Ordinary Shares of RM1 each	200,000
Reserves:	
Asset revaluation reserve	70,000
Retained profit	<u>110,000</u>
Total Liability & Shareholders' Equity	<u>RM752,000</u>

On 1st March 2022, three quarter of the preference shares were redeemed at a premium of 10%. To finance the redemption, the company will utilise RM64,000 of the retained profit and the balance through issuance of new ordinary shares at RM1.60 each.

On 1st June 2022, the company declares a bonus of 2 ordinary share for every 5 shares held. This bonus issue is to be made out of the asset revaluation reserve. The newly issued shares (for redemption purposes) will not be accounted for the bonus issue.

Required

Prepare the necessary journal entries to record the transactions.

(6 marks)

(Total: 25 marks)

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QUESTION 2

The following is the account balances for Axicco Berhad as at 31 December 2021:

	Debit (RM)	Credit (RM)
Land and building	315,000	
Machines	245,000	
Motor vehicles	167,700	
Inventories	62,100	
Bank	133,000	
Trade receivables	82,000	
Investment	77,000	
Patents	52,000	
Research and development	61,900	
Accumulated profit and loss	121,000	
625,000 Ordinary shares at RM1.20 each		750,000
200,000 7% Preference shares at RM1.40 each		280,000
Director's loan		63,000
Overdraft bank		18,700
Trade payables		111,000
8% debentures		94,000

As to date, Axicco Berhad. had commenced their business for 15 years. However, in the last 8 consecutive years the company was suffered a great loss which made them unable to pay dividends to their shareholders. The company passed a special resolution and the approval of the court was obtained for the following scheme of reconstruction:

1. The ordinary shares to be reduced by RM0.55 per share fully paid.
2. The existing ordinary shareholders agreed to take up 2 fully paid-up ordinary shares for every 1 held.
3. The existing 200,000 7% preference shareholders are to be exchanged for a new issue of 70,000 5% cumulative preference share of RM1.40 each and 280,000 ordinary shares.
4. To write off accumulated profit and loss incurred during the year.

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5. The following assets were valued:

	RM
Land and building	370,000
Machines	260,000
Motor vehicles	134,500
Trade receivables	71,300
Inventories	58,400

6. A quarter of the patents is to be written off.
7. 40% of director's loan is to be canceled. The remaining balance of the director's loan is to be settled by cash RM18,300 and the issuance of ordinary shares of RM0.65 each.
8. Fair value of the investment is RM85,000.
9. RM52,000 of the trade payables is to be paid.
10. 10% of trade receivables is to be written off.
11. Cost of reconstruction amounted to RM8,500.
12. To record any surplus or deficiency on capital reduction account.

Required

- (a) Show the journal entries to record the above transactions. (16 marks)
- (b) Prepare the Capital Reduction account. (7 marks)
- (c) List any **TWO (2)** activities involved in internal reconstruction of the company. (2 marks)

(Total: 25 marks)

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QUESTION 3

The sole proprietor of Horizon Enterprise, Haiqal, converted his business into a limited liability company on 1 January 2022. A new company named Sun Power Sdn. Bhd. was formed to take over all the assets, except cash at bank and liabilities of Horizon Enterprise.

The Statement of Financial Position of Horizon Enterprise as at 31 December 2021 is as follows:

Horizon Enterprise		
Statement of Financial Position as at 31 December 2021		
	(RM)	(RM)
Current Assets		
Bank	20,000	
Trade receivables	40,000	
Inventories	50,000	
Total Current Assets		110,000
Property, Plant and Equipment		
Equipment	80,000	
Less: Accumulated depreciation	(10,000)	70,000
Total Assets		<u>RM180,000</u>
Current Liability		
Trade payables		30,000
Owner's Equity		
Haiqal's, Capital		150,000
Total Liability and Owner's Equity		<u>RM180,000</u>

Haiqal and his friend, Haris purchased 5,000 ordinary shares each at RM1.50, for cash in Sun Power Sdn. Bhd. when the company was formed.

Additional information:

1. The purchase price is to be settled by the issuance of 150,000 fully paid ordinary shares of RM1.50 each in Sun Power Sdn. Bhd.
2. Horizon Enterprise needs to pay for liquidation expenses of RM3,600.

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3. The fair value of the assets was:

	(RM)
Equipment	75,000
Trade Receivables	35,000
Inventories	55,000

Required

- (a) Calculate the goodwill on business purchase. (4 marks)
- (b) Prepare the journal entries to close the books of Horizon Enterprise. (9 marks)
- (c) Prepare the journal entries to open the books of Sun Power Sdn. Bhd. (7 marks)
- (d) Prepare the Statement of Financial Position of Sun Power Sdn. Bhd. as at 31 December 2022. (5 marks)

(Total: 25 marks)

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QUESTION 4**Part A**

Berry Bhd. and Daisy Bhd. are to be liquidate since both companies being acquired by Blossom Bhd. on 1st December 2022. Blossom Bhd. acquired all assets and liabilities of Berry Bhd. and Daisy Bhd. upon the liquidation date.

Following are the Statements of Financial Position of Berry Bhd. and Daisy Bhd. as at 30 November 2022:

Statements of Financial Position as at 30 November 2022		
	Berry Bhd. (RM)	Daisy Bhd. (RM)
<u>Plant, Property and Equipment</u>		
Land and buildings	300,000	315,000
Office furniture	154,000	138,000
Motor vehicles	150,000	172,000
<u>Intangible Asset</u>		
Goodwill	69,000	55,000
<u>Current Assets</u>		
Bank	110,000	160,000
Inventories	133,000	100,000
Trade receivables	97,000	106,000
TOTAL ASSETS	RM1,013,000	RM1,046,000
<u>Current liability</u>		
Trade payables	73,000	165,000
<u>Shareholders' Equity</u>		
7% Preference Shares of RM2 each	260,000	440,000
Ordinary Shares of RM1 each	480,000	400,000
<u>Reserves</u>		
Asset revaluation reserve	80,000	61,000
Profit and loss	120,000	(20,000)
TOTAL LIABILITY & EQUITY	RM1,013,000	RM1,046,000

Note: Value for all assets are at book value.

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Additional information:

1. The purchase consideration paid by Blossom Bhd. to Berry Bhd. and Daisy Bhd. as follows:
 - a) For the benefit of preference shareholders
168,000 7% preference shares were issued only to Berry Bhd. at RM2.50 per share.
 - b) For the benefit of ordinary shareholders
400,000 and 480,000 ordinary shares were issued to Berry Bhd. and Daisy Bhd. respectively at RM1.25 per share.
2. Liquidation expenses of RM6,000 and RM4,000 for Berry Bhd. and Daisy Bhd. respectively are to be paid by Blossom Bhd.
3. The fair value of the plant, property and equipment are as follows:

	Berry Bhd. (RM)	Daisy Bhd. (RM)
Office furniture	130,000	120,000
Motor vehicle	132,000	150,000
Inventories	150,000	90,000
Trade receivables	90,000	nil

Required

- (a) Calculate the goodwill and purchase consideration paid to Berry Bhd. and Daisy Bhd. (6 marks)
 - (b) Prepare journal entries to open the book of Blossom Bhd. (9.5 marks)
 - (c) Prepare Statement of Financial Position of Blossom Bhd. as at 1st December 2022. (6.5 marks)
- (Show all your workings).

Part B

Public company needs to prepare annual report to be distributed to their shareholders before Annual General Meeting. There are six components in the annual report.

Required

Briefly explain the audit committee report. (3 marks)

(Total: 25 marks)

End of Paper